

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA**

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In re:

BKY No. 04-42402

Knutson, Inc.,

Chapter 11

Debtor.

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**DEBTOR'S DISCLOSURE STATEMENT**

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ATTORNEYS FOR DEBTOR

## **I. INTRODUCTION.**

### **A. GENERAL.**

Knutson, Inc. ("**Debtor**") seeks confirmation from the United States Bankruptcy Court for the District of Minnesota ("**Court**") of the Debtor's Plan of Reorganization ("**Plan**") filed by the Debtor. A copy of the Plan [which has been filed with the Court] accompanies this Disclosure Statement ("**Disclosure Statement**") as Exhibit A.

This Disclosure Statement is furnished pursuant to Section 1125 of the United States Bankruptcy Code, 11 U.S.C. § 101 et seq. ("**Code**") and is intended to provide all persons who have claims against, or interests in, the Debtor with sufficient information to permit them to make an informed judgment as to their votes to accept or reject the Plan. The information set forth in this Disclosure Statement has been supplied by the Debtor.

This Disclosure Statement, including the Plan, should be read in its entirety. For the convenience of creditors and the equity security holder, the terms of the Plan are summarized in this Disclosure Statement in Section III entitled "Summary of the Plan." However, all summaries are qualified by the Plan itself, which is controlling in the event of any inconsistency.

All capitalized terms contained herein which are not specifically defined herein shall have the meanings ascribed to them in the Plan unless the context otherwise requires. The defined terms in the Plan shall have the same meaning herein.

### **B. VOTING PROCEDURES AND INSTRUCTIONS.**

The Court will set the deadline for votes to be cast to accept or reject the Plan in the Order Approving this Disclosure Statement. Voting on the Plan shall be made by filling out and mailing the enclosed ballot to the Clerk of United States Bankruptcy Court, 301 U.S. Courthouse, 300 South Fourth Street, Minneapolis, Minnesota 55415. Ballots must be **received** by the Court by the date and time set forth in the Order Approving the Disclosure Statement.

### **C. NO REPRESENTATIONS OTHER THAN HEREIN.**

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATIONS OR THE VALUE OF ITS PROPERTY) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE ACCEPTANCE OF THE PLAN WHICH ARE OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY CREDITORS AND EQUITY SECURITY HOLDERS IN ARRIVING AT A DECISION TO VOTE TO ACCEPT OR REJECT THE PLAN. ANY SUCH REPRESENTATIONS OR INDUCEMENTS MADE SHOULD BE REPORTED TO THE DEBTOR, THE UNITED STATES TRUSTEE, OR THE BANKRUPTCY COURT.

THE INFORMATION CONTAINED HEREIN, UNLESS OTHERWISE INDICATED, IS UNAUDITED. FOR THE FOREGOING REASON, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH THE DEBTOR HAS MADE GREAT EFFORT TO BE ACCURATE IN ALL MATERIAL RESPECTS.

COUNSEL FOR THE DEBTOR HAS NOT VERIFIED ANY OF THE INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT, ALTHOUGH IT HAS NO ACTUAL KNOWLEDGE OF ANY INACCURACIES.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

**D. RECOMMENDATION OF THE DEBTOR.**

After review of many possible approaches, in the opinion of the Debtor, the Plan is the best available option for secured and unsecured creditors, and complies with all provisions of applicable law.

**II. THE DEBTOR.**

**A. THE DEBTOR'S PLACE OF BUSINESS.**

The place of business of the Debtor is located at 1219 E. College Drive, P.O. Box 824, Marshall, MN 56258.

**B. STRUCTURE OF THE DEBTOR.**

The Debtor is a Minnesota corporation formed on February 22, 1999. The Debtor's shares are entirely held by Mr. Bradley A. Knutson ("**Knutson**"), the Debtor's President.

**C. THE DEBTOR'S BUSINESS AND FACILITIES.**

The Debtor operates an oil change service and a twenty-four hour towing service. It leases a convenience store to a third party. The Debtor has one office facility, in Marshall, Minnesota.

**D. PRE-PETITION EVENTS.**

Knutson, Inc. (the "**Debtor**") was incorporated as a Minnesota corporation in the spring of 1999. Its sole shareholder, director and officer has been, and remains, Bradley Knutson.

The Debtor initially operated as a convenience store, gas station, grocery, auto repair and towing service out of one building under the name of Brad's One Stop. In 2001, the roof over the service bay collapsed causing the Debtor to refinance and construct a new service bay. The new service bay was completed in February 2002 and is a separate building from the convenience store.

The service center has always been a profitable operation whereas the convenience store and gas station have faced difficulty. It becomes difficult for the Debtor's small convenience store and gas station to compete with the "big box" retailers as they move into Marshall, MN. The Debtor's revenues began to slip on March/April of 2001 and have continued to decline through the filing of this Chapter 11 case.

Due to reduced revenues, the Debtor fell behind on its state and federal tax obligations. It was concern about the collection powers of the taxing authorities that caused this Chapter 11 filing.

The Debtor has employed as many as 17 employees and presently has 10 full- and part-time employees.

**E. POST PETITION EVENTS.**

**1. Retention of Professionals.**

By Order dated May 4, 2004, the law firm of Leonard, O'Brien, Spencer & Gale, Ltd. ("LOSGS") was authorized to represent the Debtor in this case. By order dated May 25, 2004, Mr. Stanley A. Egenes was approved to represent the Debtor as its accountant.

**2. Use of Cash Collateral.**

The Debtor is authorized to use cash collateral in this case by consent of the First Independent Bank of Balaton ("**Bank**") and the Internal Revenue Service ("**IRS**").

**3. Official Committee of Unsecured Creditors.**

There is no committee of unsecured creditors in this case.

**4. Reorganization Efforts**

The Debtor has taken the following steps, post-petition, to assist with making its business more profitable:

- a. The Debtor has reduced and continues to reduce, its unprofitable areas. It has leased the convenience store and gas operations to Tri State Petroleum ("**Tri-State**"). This will generate revenue for the Debtor and, in addition, Tri State will operate the office and take the towing calls. Tri State is also paying the utilities for that operation, thus relieving the Debtor of an expense.

- b. The Debtor has reduced the number of its employees by eliminating 1 full-time position and 5 part-time positions.
- c. The Debtor is engaging in low-cost, target advertising through Valvoline "flex funds."
- d. Debtor has increased its overall pricing by roughly 5%.
- e. Debtor is attempting to reduce other fees, insurance costs and charges.

### **III. SUMMARY OF THE PLAN.**

The **Effective Date** of any confirmed Plan shall be the later of the eleventh day after the entry of an Order confirming the Debtor's Plan, provided no appeal from said Order is made, or eleven days after consummation of a sale of assets to fund the Plan.

#### **TREATMENT OF PRE-PETITION PRIORITY GOVERNMENTAL CLAIMS**

Prepetition priority government claims, less any payments that the Debtor may have made during the course of this case, shall be paid, in full on the Effective Date or, over five years, with interest on the outstanding balance of the allowed claim at the rate provided for in 26 U.S.C. §6621(b), from and after the Effective Date. The claims shall be paid in full within six years of the date that the tax was assessed. Those claims are believed to total \$27,743.98 and will share a pro rata payment of \$462.40 per month.

#### **ADMINISTRATIVE PRIORITY CLAIMS**

Administrative Claims are those costs and expenses of administration arising under Section 503(b) of the Code (other than as described in subparagraph 2 hereof) which are entitled to first priority under Section 507(a)(1) of the Code. The Debtor does not believe that there will be any unpaid administrative claims. If not paid previously, allowed Administrative Claims will be paid in full in cash on the Effective Date, or as soon as practicable thereafter but no later than fifteen (15) business days after the Administrative Claim becomes an allowed Claim, or shall be paid in accordance with such terms as may have been agreed upon by the Debtor and the respective claimants.

A quarterly fee is payable by the Debtor to the United States Trustee under 28 U.S.C. § 930(a)(6). These fees are entitled to priority under Section 507(a)(1) of the Code. Fees which become due during the pendency of the Chapter 11 Case will be paid in full in the normal course of business. Any unpaid fees due on the Effective Date will be paid in full in cash on the Effective Date, or as soon as practicable thereafter, but no later than fifteen (15) business days after the Effective Date unless agreed otherwise by the claimant.

## **PROFESSIONAL FEES**

Professional fees that constitute administrative claims are the allowed fees and costs or the professionals that have been employed by the Debtor. Provided that the professionals receive Bankruptcy Court approval of their fees and expenses, these claims for professional fees shall be paid in full on the Effective Date, or as soon as practicable thereafter, or on such other date as the Court may fix, or in the ordinary course of business of the Debtor, or upon such terms as may be agreed upon by the particular professional and the Debtor.

## **CLASSIFICATION OF CLAIMS AND INTERESTS**

All claims against the Debtor shall be bound by the provisions of the Plan and are hereby designated pursuant to and in accordance with Section 1123(a) of the Code as the following Classes: CLASS D IS DEEMED IMPAIRED UNDER THIS PLAN.

**Class A.** The allowed secured claim held by the Bank, as of April 29, 2004, in the approximate principal amount of \$909,588.99 as of approximately August 18, 2004 by way of the following notes:

- a. Note No. 24584, with a principal balance of \$45,849.59 (and accrued interest of \$96.48);
- b. Note No. 24585, with a principal balance of \$432,530.23 (and accrued interest of \$1,437.46);
- c. Note No. 24380, with a principal balance of \$417,300.00 (and accrued interest of \$17,630.00); and,
- d. Note No. 27272, with a principal balance of \$13,909.17 (and accrued interest of \$7.87).

The Bank also has a claim for interest, attorney's fees and expenses.

**Class B.** The allowed secured claim held by the Internal Revenue Service ("IRS") of \$37,570.03.

**Class C.** The allowed secured claim held by Lyon County for past-due real estate taxes in the amount of \$16,219.00.

**Class D.** The allowed claims that are not secured by a lien on property in which the Bankruptcy Estate has an interest, and that are not specifically included in any other class. The Debtor estimates the allowed claims in this class to be approximately \$187,214.00.

**Class E.** This class shall consist of the untimely filed claims or claims which have been disallowed in this case.

**Class F.** This Class shall consist of the shareholder interests in the Debtor. Mr. Knutson is the Debtor's sole shareholder.

## TREATMENT OF CLASSES

**Class A.** The Bank will retain its current collateral and remain cross-collateralized to secure all indebtedness. The Plan treatment for each note (the "**Notes**") will be as follows:

- a.     Note No. 24584.     The note will amortize for 16 years at its present interest rate. The monthly payment will be \$400.00 per month.
- b.     Note No. 24585.     The note will amortize over 20 years at its current interest rate. The monthly payment will be \$2,900.00 per month.
- c.     Note No. 24380.     This note will have a new interest rate of 50 basis points (.5%) over the New York Prime rate. The Bank will be paid \$1,200.00 per month through September 1, 2005, when the balance of the loan will be amortized over 20 years; resulting in monthly payments of approximately \$3,200.00 per month.
- d.     Note No. 27272.     This note will be amortized over 5 years at its current interest rate. The monthly payment will approximately \$300.00 per month.
- e.     The Notes will all balloon in five (5) years.
- f.     The Debtor has the right to prepay the unpaid balance to Bank, without penalty, at any time.
- g.     The Debtor shall assign to the Bank its rents from its convenience store operations to be used to reduce the Debtor's monthly payments to the Bank.

**Class B.** The allowed secured claim held by the IRS, believed to be 37,570.03, shall be paid over a period of five (5) years by way of monthly payments as follows:

Year 1:	\$300
Year 2:	\$400
Year 3:	\$550
Year 4:	\$700
Year 5:	\$1,180.84

**Class C.** The Debtor will pay its obligation to the County by way of monthly payments of \$270.32 over a period of 5 years commencing one year after the Effective Date of the Plan.

**Class D. General Unsecured Claims.** Unsecured Creditors, holding allowed claims, will be paid a pro rata share of \$28,682.00 over the period of five (5) years by way of annual payments

commencing one (1) year after the Effective Date. The total payments per year are: Year One - \$5,088.00; Year Two - \$5,393.00; Year Three - \$5,717.00; Year Four - \$6,060.00 and Year Five - \$6,424.00.

**Class E. Untimely Filed Claims.** Holders of Class E claims shall receive nothing under the Plan and shall not be treated as claim holders for purposes of voting or distribution under the Plan.

**Class F. Shareholders.** The interest of the shareholders shall not be impaired under this Plan. Knutson shall remain the Debtor's sole shareholder.

#### **IV. CONTESTED CLAIMS.**

No payment will be made under the Plan with respect to a contested claim until that claim becomes allowed, by agreement of the parties to any claim dispute or by Final Order of the Court. As soon as practicable after the allowed claim is established by agreement or Final Order, Debtor will pay the holder of such allowed claim the amount provided in the Plan.

#### **V. MEANS FOR EXECUTION OF THE PLAN.**

The scheduled Plan payments and other financial obligations of the Debtor under the Plan shall be funded by the Debtor's operations.

#### **VI. EXECUTORY CONTRACTS AND UNEXPIRED LEASES.**

The Debtor assumes hereunder all of its executory contracts and leases except those executory contracts and leases which the Debtor rejected prior to confirmation of its Plan of Reorganization. With respect to rejected leases, the respective lessors' claims shall be reduced by the amount of any pre- and post-petition deposits paid by the Debtor. The Debtor shall not be responsible for late charges, based upon pre-petition delinquencies, for any lease or executory contract, after April 29, 2004.

Upon the expiration or rejection of the Debtor's executory contracts or leases, the subject property will be made available to the creditor for return.

Any claim arising from the rejection of an executory contract or unexpired lease must be filed before the deadline established by the Court for the filing of claims. Any claim not timely filed shall not be entitled to a distribution from the estate.

#### **VII. ACCEPTANCE AND CONFIRMATION.**

In order to confirm the Plan, the Code requires that the Court make a series of determinations concerning the Plan, including:



- (i) that the Plan has classified Claims and equity security holder interests in a permissible manner;
- (ii) that the contents of the Plan comply with the technical requirements of Chapter 11 of the Code;
- (iii) that the Debtor has proposed the Plan in good faith; and,
- (iv) that the Debtor's disclosures concerning the Plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and the Chapter 11 Case, as well as the identity, affiliations and compensation to be paid to all officers, directors, partners and other insiders.

The Debtor believes that all of these conditions have been met and will seek rulings of the Court to this effect at the hearing on confirmation of the Plan.

The Code also requires that the Plan be accepted by the requisite votes of creditors and equity security holders, that the Plan be feasible, and that confirmation of the Plan be in the "best interests" of all creditors and equity security holders. To confirm the Plan, the Court must find that all of these conditions are met. Thus, even if the creditors and equity security holders of the Debtor accept the Plan by the requisite votes, the Court must make independent findings respecting the Plan's feasibility and whether it is in the best interests of the Debtor's creditors and equity security holders before it may confirm the Plan. The "best interests" and feasibility conditions to confirmation are discussed below.

**A. BEST INTEREST OF CREDITORS AND EQUITY SECURITY HOLDERS.**

The Debtor believes that a commercially reasonable liquidation of the Debtor's assets would generate the proceeds as reflected in Exhibit C attached to this Disclosure Statement. The liquidation analysis reflects a Chapter 7 liquidation valuation.

**B. FEASIBILITY.**

Section 1129(a)(11) of the Code requires that confirmation of the Plan is not likely to be followed by the liquidation of the reorganized Debtor or the need for further financial reorganization. In evaluating whether the Plan satisfies this feasibility standard, the Debtor has analyzed the ability of the Debtor to satisfy its creditor's claims after confirmation of the Plan. In this case, the analysis is limited to the Effective Date when creditors will be paid in full. That analysis is provided in Exhibit B hereto.

Financial statements evidencing the Debtor's operations during this Chapter 11 case are attached hereto as Exhibit D. The Debtor is current on monthly operating reports and on paying its quarterly fees to the U.S. Trustee.

### **C. CONFIRMATION.**

In order for the Court to confirm the Plan, an affirmative vote must be cast by each Class which is considered "impaired" by the Plan. Section 1126(c) of the Code provides that a class of creditors accepts a plan if the plan is accepted by creditors holding at least two-thirds in dollars amount and one-half in number of the allowed claims of such class held by creditors who have voted to accept or reject the Plan.

Notwithstanding the foregoing, under certain circumstances the proponent of the Plan (in this case, the Debtor) may seek confirmation and the Court may confirm the Plan despite the failure of one or more of the impaired Classes to accept the Plan. The Debtor may utilize the so-called "cram-down" provisions under Section 1129(b) of the Code in the event that all impaired Classes do not accept the Plan.

### **VIII. ALTERNATIVES TO THE PLAN.**

The Debtor believes that the Plan provides its creditors and equity security holders with the earliest and greatest possible value which can be realized on their respective claims and interests. The alternatives to confirmation of the Plan are submission of an alternative plan (or plans) of reorganization by the Debtor or any other party in interest or the liquidation of the Debtor. Under Section 1121 of the Code, a debtor has the exclusive right to file a plan of reorganization during the first 120 days following the commencement of its Chapter 11 case, and if a Plan is filed within said time frame, the Debtor has an exclusive right to obtain confirmation of its Plan for 180 days following the commencement of its case. A calculation of the amount creditors will receive if the Debtor is liquidated is set forth in Exhibit C attached hereto. The Debtor's liquidation analysis is based upon a Chapter 7 liquidation.

### **IX. POST-CONFIRMATION COMPOSITION OF THE DEBTOR AND MANAGEMENT.**

Bradley Knutson should remain as the Debtor's president and shall receive his normal compensation of \$900.00 per week. It is anticipated that the Debtor's employees and their compensation shall remain unchanged.

**X. TAX CONSEQUENCES.**

The Debtor is not qualified to advise its creditors and equity security holders of the specific respective tax impact on each of them as a result of treatments provided in the Plan and therefore makes no representation as to the same. Each creditor and equity security holder is urged to consult with a tax advisor as to such matters.

**XI. PENSION PLAN.**

The Debtor has no pension plans or employee benefit plans except for a health care plan.

**XII. RELEASE OF THE DEBTOR.**

As of the Effective Date, the rights afforded in the Plan shall be in exchange for and in complete settlement, satisfaction, payment, cancellation, discharge and release of all Claims and interests of any nature whatsoever against the Debtor. The release shall be effective as to each Claim or interest, regardless of whether a proof of claim or proof of interest therefor was filed, whether the Claim or interest is allowed, or whether the holder thereof votes to accept the Plan, pursuant to 11 U.S.C. §1141.

**XIII. AVOIDABLE TRANSFERS AND LITIGATION.**

The Debtor shall analyze each claim made against the Debtor, and if appropriate, commence proceedings to disallow claims.

The Reorganized Debtor retains all causes of actions that were owned by the Debtor and the estate for maximum periods of limitation. This provision is intended to avoid the result of an argument that confirmation of a plan of reorganization bars subsequent claims against creditors for fraudulent conveyances. Any creditor who has, or may have, been the recipient, or subsequent transferee, of an avoidable fraudulent conveyance, shall be subject to having its Scheduled Plan Payment reduced or delayed, or its secured claim avoided, pending a resolution of the fraudulent conveyance litigation, regardless of whether the creditor voted for, or agreed to the provisions of, the Plan.

**XIV. RETENTION AND ENFORCEMENT OF CLAIMS OR INTEREST BELONGING TO DEBTOR OR ESTATE.**

Unless specifically released herein, Debtor retains and may, at its option, enforce any claim or interest belonging to itself or the estate, including, but not limited to, any claim for avoidance of any transfer and recovery of any asset that could be avoided and recovered by a trustee under the Bankruptcy Code. Debtor may object to allowance of any claim, unless such claim, interest, or objection has been compromised and such compromise has been approved by order of the Court entered prior to the Confirmation Date or provided for in this Plan. Any claim or interest recoverable

under Code § 550 will remain property of Debtor after the Confirmation Date, and any property or funds recovered under such claim or interest will remain property of Debtor until such property or funds are used to pay the expenses, including attorneys' fees, arising from the prosecution of such claim or interest. Debtor may, at its option, compromise any claim, interest, or objection retained herein after the Confirmation Date without approval from the Court.

#### **XV. PLAN CONSUMMATION AND CONTINUING JURISDICTION.**

Following confirmation and substantial consummation, the Court may enter a Final Order and direct that this bankruptcy case be closed. The Plan will be fully consummated upon the fulfillment by Debtor of all of its obligations for payment and distributions under this Plan.

The Court shall retain jurisdiction until this Plan has been fully consummated for the following purposes: entry of an order releasing and satisfying mortgages or liens; classification of the claims and interests of creditors and allowance of the claims and interests of creditors; allowance of claims for damages from the rejection of executory contracts; determination of all questions and disputes regarding title to the assets of the estate and determination of all causes of action between Debtor and any other party, including but not limited to any claim, interest, or objection retained under this Plan; correction of any defect; the curing of any omission or the reconciliation of any inconsistency in this Plan or the order of confirmation as may be necessary to carry out the purpose and intent of this Plan, interpretation and enforcement of the terms of this Plan; shortening or extending for cause, of time fixed for doing any act or thing under this Plan, and entry of any order, including any injunction, necessary to enforce the title, rights, and powers of Debtor. The Court may exercise its jurisdiction after notice and a hearing or ex parte, as the Court determines to be appropriate.

#### **XVI. CONCLUSION.**

It is important that creditors and equity security holders exercise their rights to vote for the acceptance or rejection of the Plan. The Debtor requests that each holder of a Claim complete the ballot and vote to accept the proposed Plan.

**KNUTSON, INC.**

Dated: September 2, 2004

By: Bradley G. Knutson Pres  
Bradley G. Knutson  
Its: President

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA**

In re:

BKY No. 04-42402

Knutson, Inc.,

Chapter 11

Debtor.

**DEBTOR'S PLAN OF REORGANIZATION**

Knutson, Inc., the debtor in possession in the above-referenced bankruptcy case proposes the following Plan of Reorganization pursuant to Title 11 of the United States Code. All parties in interest are encouraged to consult the Debtor's Disclosure Statement served with this plan before voting to accept or reject this plan.

**ARTICLE I  
DEFINITIONS**

For purposes of this Plan of Reorganization, the following terms shall have the respective meanings hereinafter set forth. Any terms contained in this plan of reorganization that are not specifically defined shall have the meaning provided for in Title 11 of the United States Code, unless the context otherwise requires.

**"Bankruptcy Code"** or **"Code"** means Title 11 of the United States Code.

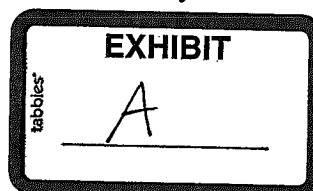
**"Bankruptcy Rule"** means a Federal Rule of Bankruptcy Procedure.

**"Clerk"** means the office of the clerk of the United States Bankruptcy Court for the District of Minnesota.

**"Confirmation Date"** means the date of the order confirming this Plan.

**"Contested Claim"** means (1) a claim that is not an allowed claim because Debtor or another party in interest has objected to the allowance of such claim under Code § 502(b) and Bankruptcy Rule 3007, (2) any secured or unsecured portions of a secured claim that is subject of a motion for determination of the value of security under Code § 506(a) and Bankruptcy Rule 3012 or (3) any claim or portion of a claim which is scheduled by the Debtor as disputed, contingent or unliquidated and as to which no proof of claim has been filed.

**"Court"** means a United States Bankruptcy Judge pursuant to reference from the United States District Court for the District of Minnesota, or any other court having competent jurisdiction to enter an order confirming the Plan.



**"Debtor"** means Knutson, Inc., the debtor in possession in the above-referenced bankruptcy case, and the reorganized debtor following Confirmation Date.

**"Effective Date"** means the later of the eleventh day after the Court's Order confirming the Debtor's Plan of Reorganization, provided no appeal from said Order is made, or eleven days after consummation of a sale of assets to fund the Plan.

**"Filing Date"** means April 29, 2004.

**"Final Order"** means an order of the Court which has not been reversed, stayed, modified or amended and the time to appeal from or to seek review or rehearing of such order has expired. Debtor may elect to waive provisions relating to appeal and treat any order of the Court as a Final Order and may distribute and otherwise proceed under this Plan, even if there is a pending motion to extend time for appeal or a pending appeal, unless the order is stayed.

**"Plan"** means this Chapter 11 plan of reorganization as amended or modified.

**"Schedules"** means the schedules of assets and liabilities of Debtor on file with the Clerk, as from time to time amended in accordance with Bankruptcy Rule 1009.

## **ARTICLE II TREATMENT OF ADMINISTRATIVE CLAIMS**

Administrative Claims are those costs and expenses of administration arising under Section 503(b) of the Code (other than as described in subparagraph 3 hereof) which are entitled to first priority under Section 507(a)(1) of the Code. The Debtor does not believe that there will be any unpaid administrative claims. If not paid previously, allowed Administrative Claims will be paid in full in cash on the Effective Date, or as soon as practicable thereafter but no later than fifteen (15) business days after the Administrative Claim becomes an allowed Claim, or shall be paid in accordance with such terms as may have been agreed upon by the Debtor and the respective claimants.

Professional fees that constitute administrative claims are the allowed fees and costs or the professionals that have been employed by the Debtor. Provided that the professionals receive Bankruptcy Court approval of their fees and expenses, these claims for professional fees shall be paid in full on the Effective Date, or as soon as practicable thereafter, or on such other date as the Court may fix, or in the ordinary course of business of the Debtor, or upon such terms as may be agreed upon by the particular professional and the Debtor.

A quarterly fee is payable by the Debtor to the United States Trustee under 28 U.S.C. § 930(a)(6). These fees are entitled to priority under Section 507(a)(1) of the Code. Fees which become due during the pendency of the Chapter 11 Case will be paid in full in the normal course of

business. Any unpaid fees due on the Effective Date will be paid in full in cash on the Effective Date, or as soon as practicable thereafter, but no later than fifteen (15) business days after the Effective Date unless agreed otherwise by the claimant.

### **ARTICLE III PRIORITY CLAIMS**

Prepetition priority government claims, less any payments that the Debtor may have made during the course of this case, shall be paid, in full on the Effective Date or, over five years, with interest on the outstanding balance of the allowed claim at the rate provided for in 26 U.S.C. §6621(b), from and after the Effective Date. The claims shall be paid in full within six years of the date that the tax was assessed. Those claims are believed to total \$27,743.98 and will share a pro rata payment of \$462.40 per month.

### **ARTICLE IV CLASSIFICATION OF CLAIMS AND INTERESTS**

All claims against the Debtor shall be bound by the provisions of the Plan and are hereby designated pursuant to and in accordance with Section 1123(a) of the Code as the following Classes: CLASS D IS DEEMED IMPAIRED UNDER THIS PLAN.

**Class A.** The allowed secured claim held by the Bank, as of April 29, 2004, in the approximate principal amount of \$909,588.99 as of approximately August 18, 2004 by way the following notes:

- i. Note No. 24584, with a principal balance of \$45,849.59 (and accrued interest of \$96.48);
- ii. Note No. 24585, with a principal balance of \$432,530.23 (and accrued interest of \$1,437.46);
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The Bank also has a claim for interest, attorney's fees and expenses.

**Class B.** The allowed secured claim held by the Internal Revenue Service ("IRS") of \$37,570.03.

**Class C.** The allowed secured claim held by Lyon County for past-due real estate taxes in the amount of \$16,219.00.

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**Class E.** This class shall consist of the untimely filed claims or claims which have been disallowed in this case.

**Class F.** This Class shall consist of the shareholder interests in the Debtor. Mr. Knutson is the Debtor's sole shareholder.

## **ARTICLE V TREATMENT OF CLASSES**

**Class A.** The Bank will retain its current collateral and remain cross-collateralized to secure all indebtedness. The Plan treatment for each note (the "Notes") will be as follows:

- a. Note No. 24584. The note will amortize for 16 years at its present interest rate. The monthly payment will be \$400.00 per month.
- b. Note No. 24585. The note will amortize over 20 years at its current interest rate. The monthly payment will be \$2,900.00 per month.
- c. Note No. 24380. This note will have a new interest rate of 50 basis points (.5%) over the New York Prime rate. The Bank will be paid \$1,200.00 per month through September 1, 2005, when the balance of the loan will be amortized over 20 years; resulting in monthly payments of approximately \$3,200.00 per month.
- d. Note No. 27272. This note will be amortized over 5 years at its current interest rate. The monthly payment will approximately \$300.00 per month.
- e. The Notes will all balloon in five (5) years.
- f. The Debtor has the right to prepay the unpaid balance to Bank, without penalty, at any time.
- g. The Debtor shall assign to the Bank its rents from its convenience store operations to be used to reduce the Debtor's monthly payments to the Bank.

**Class B.** The allowed secured claim held by the IRS, believed to be 37,570.03, shall be paid over a period of five (5) years by way of monthly payments as follows:

Year 1:	\$300
Year 2:	\$400
Year 3:	\$550
Year 4:	\$700
Year 5:	\$1,180.84



**Class C.** The Debtor will pay its obligation to the County by way of monthly payments of \$270.32 over a period of 5 years commencing one year after the Effective Date of the Plan.

**Class D. General Unsecured Claims.** Unsecured Creditors, holding allowed claims, will be paid a pro rata share of \$28,682.00 over the period of five (5) years by way of annual payments commencing one (1) year after the Effective Date. The total payments per year are: Year One - \$5,088.00; Year Two - \$5,393.00; Year Three - \$5,717.00; Year Four - \$6,060.00 and Year Five - \$6,424.00.

**Class E. Untimely Filed Claims.** Holders of Class E claims shall receive nothing under the Plan and shall not be treated as claim holders for purposes of voting or distribution under the Plan.

**Class F. Shareholders.** The interest of the shareholders shall not be impaired under this Plan. Knutson shall remain the Debtor's sole shareholder.

## **ARTICLE VI CONTESTED CLAIMS**

No payment will be made under the Plan with respect to a contested claim until that claim becomes allowed, by agreement of the parties to any claim dispute or by Final Order of the Court. As soon as practicable after the allowed claim is established by agreement or Final Order, Debtor will pay the holder of such allowed claim the amount provided in the Plan.

## **ARTICLE VII MEANS FOR EXECUTION OF THE PLAN**

The scheduled Plan payments and other financial obligations of the Debtor under the Plan shall be funded by the Debtor's operations.

## **ARTICLE VIII EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

The Debtor assumes hereunder all of its executory contracts and leases except those executory contracts and leases which the Debtor rejected prior to confirmation of its Plan of Reorganization. With respect to rejected leases, the respective lessors' claims shall be reduced by the amount of any pre- and post-petition deposits paid by the Debtor. The Debtor shall not be responsible for late charges, based upon pre-petition delinquencies, for any lease or executory contract, after April 29, 2004.

Upon the expiration or rejection of the Debtor's executory contracts or leases, the subject property will be made available to the creditor for return.

Any claim arising from the rejection of an executory contract or unexpired lease must be filed before the deadline established by the Court for the filing of claims. Any claim not timely filed shall not be entitled to a distribution from the estate.

Upon the expiration or rejection of the Debtor's executory contracts or leases, the subject property will be made available to the creditor for return. No assumed leases will be renewed by the Debtor. Each assumed lease shall expire, in accord with its own terms, without renewal. No further notice shall be required of the Debtor.

Any claim arising from the rejection of an executory contract or unexpired lease must be filed before the deadline established by the Court for the filing of claims. Any claim not timely filed shall not be entitled to a distribution from the estate.

## **ARTICLE IX ACCEPTANCE AND CONFIRMATION**

In order to confirm the Plan, the Code requires that the Court make a series of determinations concerning the Plan, including:

- (i) that the Plan has classified Claims and equity security holder interests in a permissible manner;
- (ii) that the contents of the Plan comply with the technical requirements of Chapter 11 of the Code;
- (iii) that the Debtor has proposed the Plan in good faith; and,
- (iv) that the Debtor's disclosures concerning the Plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and the Chapter 11 Case, as well as the identity, affiliations and compensation to be paid to all officers, directors, partners and other insiders.

The Debtor believes that all of these conditions have been met and will seek rulings of the Court to this effect at the hearing on confirmation of the Plan.

The Code also requires that the Plan be accepted by the requisite votes of creditors and equity security holders, that the Plan be feasible, and that confirmation of the Plan be in the "best interests" of all creditors and equity security holders. To confirm the Plan, the Court must find that all of these conditions are met. Thus, even if the creditors and equity security holders of the Debtor accept the Plan by the requisite votes, the Court must make independent findings respecting the Plan's feasibility and whether it is in the best interests of the Debtor's creditors and equity security holders before it may confirm the Plan. The "best interests" and feasibility conditions to confirmation are discussed below.

**A. BEST INTEREST OF CREDITORS AND EQUITY SECURITY HOLDERS.**

The Debtor believes that a commercially reasonable liquidation of the Debtor's assets would generate the proceeds as reflected in Exhibit C attached to the Disclosure Statement. The liquidation analysis reflects a Chapter 7 liquidation valuation.

**B. FEASIBILITY.**

Section 1129(a)(11) of the Code requires that confirmation of the Plan is not likely to be followed by the liquidation of the reorganized Debtor or the need for further financial reorganization. In evaluating whether the Plan satisfies this feasibility standard, the Debtor has analyzed the ability of the Debtor to satisfy its creditor's claims after confirmation of the Plan. That analysis is provided in Exhibit B of the Disclosure Statement.

Financial statements evidencing the Debtor's operations during this Chapter 11 case are attached as Exhibit D to the Disclosure Statement. The Debtor is current on monthly operating reports and on paying its quarterly fees to the U.S. Trustee.

**C. CONFIRMATION.**

In order for the Court to confirm the Plan, an affirmative vote must be cast by each Class which is considered "impaired" by the Plan. Section 1126(c) of the Code provides that a class of creditors accepts a plan if the plan is accepted by creditors holding at least two-thirds in dollars amount and one-half in number of the allowed claims of such class held by creditors who have voted to accept or reject the Plan.

Notwithstanding the foregoing, under certain circumstances the proponent of the Plan (in this case, the Debtor) may seek confirmation and the Court may confirm the Plan despite the failure of one or more of the impaired Classes to accept the Plan. The Debtor may utilize the so-called "cram-down" provisions under Section 1129(b) of the Code in the event that all impaired Classes do not accept the Plan.

**ARTICLE X  
ALTERNATIVES TO THE PLAN**

The Debtor believes that the Plan provides its creditors and equity security holders with the earliest and greatest possible value which can be realized on their respective claims and interests. The alternatives to confirmation of the Plan are submission of an alternative plan (or plans) of reorganization by the Debtor or any other party in interest or the liquidation of the Debtor. Under Section 1121 of the Code, a debtor has the exclusive right to file a plan of reorganization during the first 120 days following the commencement of its Chapter 11 case, and if a Plan is filed within said time frame, the Debtor has an exclusive right to obtain confirmation of its Plan for 180 days following the commencement of its case. A calculation of the amount creditors will receive if the Debtor is liquidated is set forth in Exhibit C to the Disclosure Statement. The Debtor's liquidation analysis is based upon a Chapter 7 liquidation.

**ARTICLE XI**  
**POST-CONFIRMATION COMPOSITION OF THE DEBTOR AND MANAGEMENT**

Bradley Knutson should remain as the Debtor's president and shall receive his normal compensation of \$900.00 per week. It is anticipated that the Debtor's employees and their compensation shall remain unchanged.

**ARTICLE XII**  
**TAX CONSEQUENCES**

The Debtor is not qualified to advise its creditors and equity security holders of the specific respective tax impact on each of them as a result of treatments provided in the Plan and therefore makes no representation as to the same. Each creditor and equity security holder is urged to consult with a tax advisor as to such matters.

**ARTICLE XIII**  
**PENSION PLAN/EMPLOYEE BENEFIT PLANS**

The Debtor has no pension plans or employee benefit plans except for a health care plan.

**ARTICLE XIV**  
**RELEASE OF THE DEBTOR**

As of the Effective Date, the rights afforded in the Plan shall be in exchange for and in complete settlement, satisfaction, payment, cancellation, discharge and release of all Claims and interests of any nature whatsoever against the Debtor. The release shall be effective as to each Claim or interest, regardless of whether a proof of claim or proof of interest therefor was filed, whether the Claim or interest is allowed, or whether the holder thereof votes to accept the Plan, pursuant to 11 U.S.C. §1141.

**ARTICLE XV**  
**AVOIDABLE TRANSFERS AND LITIGATION**

The Debtor shall analyze each claim made against the Debtor, and if appropriate, commence proceedings to disallow claims.

The Reorganized Debtor retains all causes of actions that were owned by the Debtor and the estate for maximum periods of limitation. This provision is intended to avoid the result of an argument that confirmation of a plan of reorganization bars subsequent claims against creditors for fraudulent conveyances. Any creditor who has, or may have, been the recipient, or subsequent transferee, of an avoidable fraudulent conveyance, shall be subject to having its Scheduled Plan Payment reduced or delayed, or its secured claim avoided, pending a resolution of the fraudulent conveyance litigation, regardless of whether the creditor voted for, or agreed to the provisions of, the Plan.

**ARTICLE XVI**  
**RETENTION AND ENFORCEMENT OF CLAIMS OR INTEREST BELONGING TO**  
**DEBTOR OR ESTATE**

Unless specifically released herein, Debtor retains and may, at its option, enforce any claim or interest belonging to itself or the estate, including, but not limited to, any claim for avoidance of any transfer and recovery of any asset that could be avoided and recovered by a trustee under the Bankruptcy Code. Debtor may object to allowance of any claim, unless such claim, interest, or objection has been compromised and such compromise has been approved by order of the Court entered prior to the Confirmation Date or provided for in this Plan. Any claim or interest recoverable under Code § 550 will remain property of Debtor after the Confirmation Date, and any property or funds recovered under such claim or interest will remain property of Debtor until such property or funds are used to pay the expenses, including attorneys' fees, arising from the prosecution of such claim or interest. Debtor may, at its option, compromise any claim, interest, or objection retained herein after the Confirmation Date without approval from the Court.

**ARTICLE XVII**  
**MODIFICATION OF THIS PLAN**

Debtor may amend or modify this Plan in the manner provided for under Code § 1127(a) or (b). Debtor shall give notice of any proposed modifications to the Committee of Unsecured Creditors or its counsel, the United States Trustee, any party who has filed a response or objection (other than a ballot) to the Plan, any party who has requested notice under Bankruptcy Rules 2002(I) or 9010(b), and any party the treatment of whose claim is affected by the modification. Counsel for the Committee and to the United States Trustee and to any other parties designated by the Court. Debtor also reserves the right to make such modifications at any hearings on confirmation as are necessary to permit this Plan to be confirmed under Code § 1129(b).

**ARTICLE XVIII**  
**PLAN CONSUMMATION AND CONTINUING JURISDICTION**

Following confirmation and substantial consummation, the Court may enter a Final Order and direct that this bankruptcy case be closed. The Plan will be fully consummated upon the fulfillment by Debtor of all of its obligations for payment and distributions under this Plan.

The Court shall retain jurisdiction until this Plan has been fully consummated for the following purposes: entry of an order releasing and satisfying mortgages or liens; classification of the claims and interests of creditors and allowance of the claims and interests of creditors; allowance of claims for damages from the rejection of executory contracts; determination of all questions and disputes regarding title to the assets of the estate and determination of all causes of action between Debtor and any other party, including but not limited to any claim, interest, or objection retained under this Plan; correction of any defect; the curing of any omission or the reconciliation of any inconsistency in this Plan or the order of confirmation as may be necessary to carry out the purpose and intent of this Plan, interpretation and enforcement of the terms of this Plan; shortening or extending for cause, of time fixed for doing any act or thing under this Plan, and entry of any order, including any injunction, necessary to enforce the title, rights, and powers of Debtor. The Court may

exercise its jurisdiction after notice and a hearing or ex parte, as the Court determines to be appropriate.

## ARTICLE XIX CONCLUSION

It is important that creditors and equity security holders exercise their rights to vote for the acceptance or rejection of the Plan. The Debtor requests that each holder of a Claim complete the ballot and vote to accept the proposed Plan.

KNUTSON, INC.

Dated: September 2, 2004

By: Bradley C. Knutson - Pres.  
Bradley C. Knutson  
Its: President

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P&L Statement Knutson Inc.						
DBA Brads One Stop						
Years 1 Through 5						
File # 04-42402						
	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
Revenue-Sales						
Auto & Truck Access	56751	60156	63675	67591	71647	319820
Service Department	589373	624375	662219	701952	744069	3321988
Towing	88846	94177	99828	105817	112166	500834
Storage	26434	28020	29701	31483	33372	149010
Sales Tax	47773	50639	53677	56898	60312	269299
Total Sales	809177	857367	909100	963741	1021566	4560951
Cost of Goods Sold:						
Beginning Inventory	96157	96157	96157	96157	96157	96157
Purchases	261304	277325	294278	312310	331392	1476609
Supplies	5725	5725	5725	5725	5725	28625
Less Ending Inventory	96157	96157	96157	96157	96157	96157
Cost of Goods Sold	267029	283050	300003	318035	337117	1505234
Gross Profit	542148	574677	609097	645706	684449	3056077
Employees Wages	188846	197194	209093	221660	234960	1051753
Wage Taxes	74698	78878	83637	88864	93984	420061
Advertising	4200	6000	7200	8600	10000	36000
Insurance	63000	66150	69458	72930	76577	348115
Recycling Fees	1400	1550	1700	1900	2100	8650
Professional Fees	4200	4200	4200	4200	4200	21000
Credit Card Fees	5088	5393	5717	6060	6424	28682

EXHIBIT

B

tabbles

Uniforms & Laundry	5200	5700	6200	6800	7400	31300
Wrecker Expenses	14400	15800	17400	18700	20000	86300
Repairs	3600	4800	6000	7000	8000	29400
Utilities	7200	7200	7200	7200	7200	36000
Telephone	3600	3600	3600	3600	3600	18000
Licenses & Permits	300	300	300	300	300	1500
Rent	3600	3600	3600	3600	3600	18000
Exterminating	240	240	240	240	240	1200
Lease	21600	4848	300	0	0	26748
Depreciation	21941	19208	16476	16476	16476	90577
Sales Tax	47773	50639	53677	56898	60312	269299
Real Estate Tax	18000	19800	21000	22500	24000	105300
Outside Labor	500	500	500	500	500	2500
Equipment Replacement	1000	5000	10000	12000	12000	40000
Misc.	1000	1000	1000	1000	1000	5000
Total Expenses	491386	501600	528498	561028	592873	2675385
Assets	50762	73077	80599	84678	91576	380692
& Expense						
Bank Interest	58500	72000	72000	72000	72000	346500
Total Other Income & Expense	58500	72000	72000	72000	72000	346500
	-7738	1077	8599	12678	19576	34192
	21941	19208	16476	16476	16476	90577
Int	3600	4800	6600	8400	14170	37570
ymment	0	3244	3244	3244	3244	12976
n Tax Payment	4705	4705	4705	4705		18820
aim Payments	5609	5609	5609	5609	5609	28045
low	289	1927	4917	7196	13029	27358
Unsec Creditors	289	1927	4917	7196	13029	27358



## EXHIBIT C

### LIQUIDATION ANALYSIS

<b>Asset</b>	<b>Scheduled Value</b>	<b>Liquidation Value</b>
Cash	\$2,187.32	\$2,187.32
Bank Accounts	\$202.45	\$202.45
Real Estate	\$1,060,000	\$930,000
Accounts Receivable	\$45,770.24	\$22,500.00
1989 Chevy Service Truck	\$2,000.00	\$2,000.00
1994 Wrecker	\$8,000.00	\$8,000.00
1997 Wrecker	\$1.00	\$0.00
1999 Pickup	\$1.00	\$0.00
Equipment and Machinery	\$20,700.00	\$10,000.00
Inventory	\$96,157.00	\$48,000.00
<b>TOTAL:</b>	<b>\$1,235,685.01</b>	<b>\$1,012,889.77</b>
	Less Secured Claim of Bank	(\$926,681.76)
	Lyon County	(\$24,000.00)
	Secured claim of IRS:	(\$37,570.03)
	Net:	\$24,637.98
	Administrative Claims:	(\$15,000.00 est.)
	Priority Claims	(\$27,743.98)
	Available to Unsecured Creditors	\$0.00

# KNUTSON, INC. DBA BRAD'S ONE STOP PLUS

## PROFIT AND LOSS STATEMENT

Month Ending July 31, 2004

**Sales:**

Gasoline and Diesel	0
Convenience Store	0
Auto & Truck Supplies	3,181
Service Department	42,619
Towing	5,812
Storage	1,942
Sales Tax	<u>2,230</u>

Total Sales	55,784
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**Cost of Goods Sold:**

Beginning Inventory	96,157	
Purchases	19,756	
Supplies	<u>1,065</u>	
	116,978	
Less Ending Inventory	<u>98,457</u>	
Cost of Goods Sold		<u>18,521</u>

Gross Profit	37,263
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**Expenses:**

Employees Wages	13,650
Wage Taxes	5,236
Advertising	54
Insurance	4,597
Recycling Fees	109
Professional Fees	830
Uniforms & Laundry	382
Wrecker Expenses	1,449
Repairs	375
Utilities	411
Telephone	258
Licenses & Permits	0
Rent	300
Exterminating	0
Lease	1,305
Depreciation	1,940
Sales Tax	2,550
Real Estate Tax	0
Credit Card Fees	436
Misc.	8
Outside Labor	<u>0</u>

Total Expenses	<u>33,890</u>
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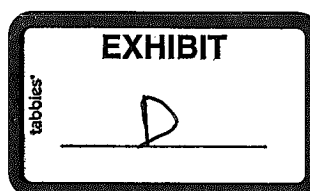
Income or (Loss)	3,373
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**Other Income & Expense**

Bank Interest	<u>4,500</u>
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Total Other Income & Expense	<u>4,500</u>
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Net Income	<u><u>(1,127)</u></u>
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**KNUTSON, INC. DBA BRAD'S ONE STOP PLUS**  
**BALANCE SHEET**

July 31, 2004

**ASSETS:**

CASH ON HAND	5,850
CASH IN BANK	(492)
ACCOUNTS RECEIVABLE	29,292
MERCHANDISE INVENTORY	98,457
EQUIPMNET	49,717
PROPERTY VALUE	<u>1,176,000</u>

TOTAL ASSETS	<u><u>1,358,824</u></u>
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**LIABILITIES**

ACCOUNTS PAYABLE(TRADE)	1,088
NOTES PAYABLE FIRST INDEPENDENT	928,761
ACCRUED PAYROLL TAXES	4,029
ACCRUED PROPERTY TAXES	4,500
SALES TAX PAYABLE	<u>2,230</u>

TOTAL LIABILITIES	940,608
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**STOCKHOLDERS' EQUITY**

CAPITAL STOCK	1,000
RETAINED EARNINGS	<u>417,216</u>

TOTAL STOCKHOLDERS' EQUITY	<u>418,216</u>
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>1,358,824</u></u>
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